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FROM THE DIRECTOR

The suspension of the Doha Round last July implies "losing a major - may be unique - opportunity to integrate more vulnerable economies into international trade". This would have given these economies a much needed growth impetus from greater access to developed country markets and higher international prices for their principal exports. The irony is that the collapse came when negotiators were reportedly quite close to the landing zone and the majority in the G-5 were prepared to take the extra step to reach closure. Let us hope that negotiations will gather new momentum after the November elections in the US and as in the past there is a last mile dash in spring of 2007 to make it happen before the expiry of the Presidential Fast Track Authority in mid 2007. WTO rounds have on average lasted seven years, experienced a crisis at about 5 years into the Round and then get in to a hyper drive mode. The Doha Round is following this pattern closely. So pessimism is certainly not called for.

Our effort in this Newsletter has been to analyse and discuss some of the non-critical (from the Round-clinching perspective) but nevertheless important issues being negotiated in this round, viz. the Environmental Goods and Services, RTAs and Subsidies. Do give us your feedback to improve the newsletter.

Dr Rajiv Kumar
Director & Chief Executive, ICRIER

LEAD ARTICLE

Negotiations on Environmental Goods and Services

The WTO negotiating mandate on environmental goods and services, contained in paragraph 31(i) of the 2001 Doha Ministerial Declaration (DMD), seeks "the reduction or, as appropriate, elimination of tariff and non-tariff barriers to trade in environmental goods and services". The liberalization of environmental goods and services (EGS) is part of the larger environmental agenda in the trade negotiations, whose main demandeur was the EC, supported by Japan, Switzerland and Norway.The EC has had a clear agenda on trade and environment...

More on page 2

SCHOOL BRIEF

Regional Trade Agreements: The New WTO Transparency Mechanism

Regional Trade Agreements (RTAs) are the buzzword in the trade circles today. Following the suspension of the Doha Round, countries-eager for trade expansion-are increasingly considering liberalization at the bilateral and regional level as their preferred means to a freer trade and investment regime. Even countries like the US and India, who have been major proponents of the multilateral system, are now opting for regional dialogues....

More on page 5

IN THIS ISSUE

We welcome any suggestions, inputs and feedback from our readers. You may send your comments to info@icrier.res.in

Environment & WTO: Negotiations on Environmental Goods and Services

by Aparna Sawhney

The WTO negotiating mandate on environmental goods and services, contained in paragraph 31(i) of the 2001 Doha Ministerial Declaration (DMD), seeks "the reduction or, as appropriate, elimination of tariff and non-tariff barriers to trade in environmental goods and services". The liberalization of environmental goods and services (EGS) is part of the larger environmental agenda in the trade negotiations, whose main demandeur was the EC, supported by Japan, Switzerland and Norway. The EC has had a clear agenda on trade and environment: first, to legitimize environmental standards and regulations in goods trade (for example through Technical Barriers to Trade and Sanitary and Phyto-Sanitary measures); second, to fold multilateral environmental negotiations into the multilateral trade regime; and third, to increase market access in environmental goods and services. At Doha, the scope of the last two issues was narrowed and Members agreed to negotiate: the relationship between existing WTO rules and specific trade obligations set out in the multilateral environmental agreements; and the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services (under paragraph 31(i) and 31(iii) respectively) with a view to enhancing the mutual supportiveness of trade and environment.

The reduction/ elimination of tariff and non-tariff barriers to EGS is one of the most critical issues in the current negotiations since this sector is among the largest and most diffused of economic sectors. The negotiation issues and outcome will determine the future rules of the WTO trading regime, and impact a whole host of sectors (like chemicals, engineering, construction, consulting, research and development); and issues (like subsidies, government procurement) which are being separately negotiated in the WTO.

This year the EGS negotiations entered in the final stage, given the deadlines set at the Hong Kong Ministerial to conclude all negotiations by the end of 2006. With respect to the EGS negotiations, Members were required to submit comprehensive draft schedules on liberalization modalities in the Non-Agricultural Market Access Negotiating Group (covering environmental goods) by 31 July 2006, and submit a final draft schedule of commitments in GATS (including environmental services) by 31 October 2006. While the deadlines for completion of the Doha Round cannot be met this year, all Members have an interest in a successful conclusion of the talks.

The reasons of the slow progress of the EGS negotiations can however be found in the way the negotiating agenda was set up. This note explores the inherent features of the agenda and the nature of the EGS sector which has made the negotiations difficult.

Inherent Problems in the Mandate

The EGS sector includes goods and services which measure, prevent, limit, and correct environmental damage to air, water, soil, and problems relating to waste, noise, and ecosystems (OECD/ Eurostat definition). Alternately, the US environment industry definition includes goods, services and technology which reduce environmental risk, minimize pollution, and enable efficient resource use. As an economic sector, industry estimates are considered under three groups: *equipment, services and resources,* (EBI, US, based on the US Standard Industry Classification system). The *equipment* revenues include sales of hardware; services revenue pertain to fees paid for services like waste treatment, waste management, remedial services, consulting, engineering, testing and analytical services; and *resources* include sales of resource like water/energy, or reclaimed material like metal/paper. Thus the EGS is not a coherent traditional economic sector, like textile or chemicals.

Given the disparate nature of the EGS sector, the mandate on the current negotiations of environmental goods and services in the WTO has two basic problems - first, the lack of definition/ classification of what constitutes environmental goods; and second, the non-integrated nature of the negotiations in goods and services.

The negotiations on environmental goods were launched without providing a classification or even a basic definition of what commodities constituted environmental goods. The debate on the definition and classification of environmental goods and services was perhaps inevitable since the industry in question, defies standard economic sector classification. While a four-segment classification of environmental services was provided in the GATS during the Uruguay Round and carried over in the Doha negotiating mandate, there was no comparable classification provided for environmental goods.

Not surprisingly, the environmental goods negotiation since its commencement in 2001 has revolved around generating an acceptable definition among the WTO Members, and a positive list of products for which tariffs would be reduced. The issue of classification in environmental services had been less intense since the sector in 1994 was classified clearly in the GATS under four headings: (A) sewage services; (B) refuse disposal services; (C) sanitation and similar services; and (D) other environmental services. The definitional debate in the environmental services today stems from the Uruguay Round classification being viewed as limited, primarily with the EC pushing for a broader coverage of environmental services beyond the four segments as mentioned above.

Second, and more importantly, environmental equipment and services are often provided in an integrated manner, especially in segments of water treatment, and waste management. Yet the EGS negotiations in the WTO are handled by two different forums in a non-integrated manner, even though the market reality shows that EGS are often offered in a consolidated package. For example, technology, design and engineering of waste treatment systems fall under environmental services, but the provision of these environmental services are often integrated with the sale/provision of the associated equipment.

The reason for the artificial separation in the WTO stems from its legal framework under which goods and services negotiations fall under the GATT and GATS respectively. Thus the current negotiations under DMD paragraph 31 (iii) are being conducted in two separate committees: environmental services in the GATS, and environmental goods in the special session of the CTE and NAMA. The disconnectedness in the environmental goods and services negotiations flies in the face of the principle of incorporating "environment" in the WTO in a holistic manner.

The current EGS negotiations in the WTO lack coordination and coherence befitting goods and services belonging to the same sector. Moreover, the complexities inherent in the nature of the environmental industry make the creation of a neat list of goods for GATT-style liberalization difficult to say the least, and the absence of proper classification in the DMD has only enhanced the challenge for the current negotiations. The listing of standard industrial goods with questionable environmental usage reflect how the EG negotiations had lost the link with the overall goal of environmental benefits and sustainable development.

Interests of the Main Demandeurs in EGS Liberalization

Today the global EGS sector is valued at more than US$650 billion, with the environmental services sector accounting for more than half the total value. The sector has grown by more than 15% during 1996–2002, and was estimated to be US$652 billion in 2005.[1] The largest environmental markets are in the US, Japan and Western Europe, however, emerging economies including those of Central and Eastern Europe, Latin America, and Asia-Pacific region (especially China and India) have experienced the most vibrant growth in their environmental markets. In 2005, these emerging economies accounted for 14 per cent of the global environmental market compared to only 8 per cent in 1994.[2]

The interests of the negotiating Members on the liberalization of EGS are based on the level of maturity of their respective domestic environmental industries. The global EGS industry is dominated by developed countries, with the US, Western Europe and Japan accounting for 85 per cent of the total world market. The mature environmental firms from the industrialized countries have a comparative advantage in the export of resource-saving and clean technologies, and in technical expertise in the design and engineering of treatment and purification facilities. As the domestic environment markets in OECD countries reached saturation, exports from the environmental firms in these countries was seen as a significant growth factor.

Moreover, considering the cross-cutting nature of the sector, the EGS sector promises to be one of the fastest growing sectors of the future. Not surprisingly, the EU in its 2005 service liberalization requests to 103 WTO Members noted that environmental services is a 'key sector' for the EC, especially since European companies are 'world leaders' in this sector.

In developing countries, the EGS sector is still at the initial stages of development. There is no scope for a level playing field for these relatively new and small firms, considering that the OECD environmental firms are large multinationals with deep pockets. However, the EGS sectors in the developing countries stand to gain from imports of cleaner technology that can be adapted to local conditions. While developing countries will remain net importers of EGS, there is scope for some niche exports in both environmental goods and services.

EGS Negotiations So Far

In the environmental goods negotiations, the focus continues to remain on the issue of determining what is to be liberalized. Members have focused on generating a positive list of goods for which tariffs would be reduced or eliminated. However, in the absence of a classification on environmental goods, the lists tabled by the Members (mostly OECD countries, besides Taiwan and Qatar) included standard industrial goods with multiple uses, often with questionable environmental value. In contrast, environmental services where they overlap with other business services like architecture, construction, consulting, engineering, R&D services, are specialized segments or environmental applications of these other services.

The environmental goods negotiations have progressed on a single track with Members focused on knocking off or adding items in a prospective list until 2005, when India's project proposal succeeded in breaking the monotony. Most developing countries have resisted the "list approach" due to the inherent risk of economic gains overriding environmental gains for negotiating Members. After all, the list of environmental goods tabled by any WTO Member is driven by the export interest of the concerned proponent of the list. Moreover, the list approach has typically ignored the linkage between environmental goods and environmental services, especially considering that these are offered in an integrated manner. It is apparent from the negotiations so far that there is a need for multiple approaches to defining or preparing a set of environmental goods that would be eligible for complete liberalization.

Most importantly, the development dimension of the Doha mandate needs to take centre-stage, to yield a fine balance between trade, environment and development. Liberalization in products with multiple uses, and weak linkage to environmental use may have adverse impacts like de industrialization in certain industry segments of developing countries.

In environmental services, the developed countries have been requesting for greater market access in Mode 3 (commercial presence), and where feasible in Mode 1 (cross-border supply). In developed countries, like the EC, Mode 3 is open but limitations are imposed in Mode 4 (movement of natural persons). In 2006, plurilateral requests from the developed countries (including Australia, Canada, EC, Japan, Korea, Norway, Switzerland, Chinese Taipei, and the US) to developing countries specifically asked for the opening up of sewage, refuse disposal, sanitation, cleaning of exhaust gases, noise abatement, nature and landscape protection and other environmental protection services.

Considering the fact that developing countries (e.g. India) are typically constrained in capital and are net importers of capital, complete liberalization in Mode 3 abroad does not hold much promise from their export interest point of view. Developing country environmental service providers are keen on gaining market access in developed countries independent of commercial presence. For instance, contractual service suppliers and independent professionals face restrictions in visa and work permit applications in developed countries. Developing countries have in turn requested EC to liberalize Mode 4 for environmental services, including sewage, refuse disposal and sanitation services.

Several developing countries (including India) made a Mode 4-specific plurilateral request to developed countries[3], which included the three environmental service segments of sewage, refuse disposal and sanitation services among other indicative service sectors. The collective request sought new and improved market access for contractual service suppliers and independent professionals' categories de-linked from commercial presence.

The revised offers by the developed countries have failed to accommodate this request. By contrast in the last two years, some developing countries have included the liberlization of the evironmental services (mode 3) in their revised offers[4], which can be seen as a response to repeated requests from the developed country Members, especially the EC and US. The revised offers or commitments in environmental services from developing countries (India and China respectively) signal to the WTO Members that they are supportive of a more liberalized regime, and that the developed countries need to make substantially improved offers on their part.

Looking Ahead

The current impasse in Doha EGS negotiations suggests that the developed countries are unwilling to further liberalize their own markets especially in Mode 4 for environmental services, and are more keen to liberalize trade in industrial products (mostly with multiple use) classified as environmental goods and create a liberal investment regime for environmental services projects under Mode 3. Such a stance is not conducive to successful conclusion of the Doha Round since export interests of developing countries also need to be integrated in the current round of liberalization. Blocking market access in Mode 4 for environmental professionals from developing countries who have potential to export services to developed countries, while expecting developing countries to completely liberalize Mode 3 is not seen as fair play. On the other hand, in environmental goods negotiations, the approach to generate a list of manufactures (typically with multiple uses) for tariff reduction is a complete departure from the holistic environmental-trade relationship envisioned in the WTO. To reflect the *development* dimension of the Doha Round and the founding principle of *sustainable development* of the WTO, the EGS negotiations need to proceed on a more integrated manner, and give due attention to the export interests of developing countries.

[1]Global Environmental Markets', *Environmental Business Journal*, Volume XIX, Number 5/6, (July 2006).

[2]*ibdi*

[3]The target group of countries included the US, EU, Australia, Canada, Japan, New Zealand, Switzerland, Norway and Iceland.

[4]For instance, India did not make commitments in the environmental services sector under the GATS, and the sector was also excluded in India's initial offer in 2003. In the 2005 revised offer, however, India opened the two segments (refuse disposal and sanitation services) within the sector.

School Brief

Regional Trade Agreements: The New WTO Transparency Mechanism

by Shravani Prakash

Introduction

Regional Trade Agreements (RTAs) are the buzzword in the trade circles today. Following the suspension of the Doha Round, countries—eager for trade expansion—are increasingly considering liberalization at the bilateral and regional level as their preferred means to a freer trade and investment regime. Even countries like the US and India, who have been major proponents of the multilateral system, are now opting for regional dialogues.

The RTA is not a new concept since agreements such as the EU, NAFTA and ASEAN have been in force for quite some time. However, there has been a rapid growth in the number of regional trade agreements (RTAs) in recent years. More than 200 RTAs are in force at present, and the number is rapidly growing. Trade between RTA partners now comprises more than half the global trade flows, up from 20% in 1960. On an average, each country belongs to six RTAs, although there exists considerable variation across regions and levels of development.

Despite this proliferation of RTAs, however, the effectiveness of RTAs as a tool for attainment of liberalization and enhanced global integration, as compared to the multilateral system of negotiations has been a topic of continuous debate and analysis. Theoretically regionalism does not offer the best solution for trade liberalisation, but in the light of sluggish performance of the multilateral system it is deemed to be the more viable alternative. Current trends indicate that regional agreements, while the second best option, will be the dominant strategy for future liberalization. In fact, RTAs was the only issue on which a consensus was reached during the failed 23 July 2006 meeting of the G6 at Geneva1. In recognition of the inevitable proliferation of RTAs, a new WTO transparency mechanism for RTAs2 has been introduced, providing for early announcement of any RTA and notification to the WTO. This is an important step towards ensuring that regional agreements become building blocks and not stumbling blocks to world trade3. Therefore, there are indications that economies will continue to embrace regional agreements in their commercial policies aimed at creation of a freer trade regime.

Stepping Stones or Stumbling Blocks?

RTAs, being discriminatory nature, tend to affect trade both negatively and positively. On the one hand they complement the multilateral system by intensively tackling WTO provisions as well as improving resource allocation among member countries. However, they also cause diversion of trade away from non-member countries. If the trade diversion effect is stronger than the trade creation effect then the RTA can be potentially welfare reducing, hurt consumers and even worsen the long-run global competitiveness of producers within the member countries.

Empirically, the effects of RTAs on liberalization and economic growth are not very clear, although some studies have calculated positive long run impacts of major RTAs like NAFTA and EU. The important issue, therefore, is to determine the factors that minimize trade distortions and assure success of an RTA. For best results, regional agreements must be complemented by unilateral liberalization; they should have a well designed architecture and must be enforced to complement multilateral liberalization.

Types of RTAs

The quest for regional trade agreements is driven by a number of economic, political and security considerations. Political origins of RTAs are rooted in foreign policy, commercial diplomacy, and development policy interests. RTAs are also driven by the goal of seeking access to larger markets. Further, preferential liberalization is a good option for negotiating issues that are not fully dealt with multilaterally, such as trade in services, investment, competition, environment and labour standards.

RTAs differ considerably in their scope and coverage. Most RTAs go beyond slashing tariffs and attempt to reduce trade impediments by including provisions referred to as "WTO Plus". These measures are much wider in scope, sometimes involving countries that are not parties to the WTO; using a "top down" or negative list approach (especially in services) as compared to a positive list approach in the WTO; measures intended to reduce trade impediments associated with standards, customs and border crossings; regulations and rules that improve the overall investment climate; etc.

Regional agreements range across different levels of economic integration. The most common type of regional integration is a **Free Trade Agreement (FTA),** in which internal trade barriers (tariff and non-tariff) are reduced or abolished but members maintain independent trade policies (tariffs) toward nonmembers. The next level of integration is a **Customs Union (CU)** where member countries also apply a common external tariff (CET) on imports from non-member countries. The first 'deep integration' stage is called **Common Markets**, where member countries attempt to harmonize institutional arrangements and laws and regulations among themselves; as well as remove all controls on movement of labour and capital. The most comprehensive RTA is an **Economic Union**, in which members remove all internal trade barriers, permit the free movement of capital and labour, erect common external trade barriers, and unify their fiscal and monetary policies. In addition there are some **Partial Scope Agreements** among developing countries that are designed to have limited product coverage. FTAs currently account for about 84% of all RTAs, while partial scope agreements and customs union agreements account for 8% each. Of these, roughly 17% of RTAs contain provisions for trade in services as well as goods.

Provisions for RTAs under the WTO

When parties (including WTO members) enter into an RTA, they offer to each other more favourable treatment in trade matters than to the rest of the world. Therefore, by their preferential nature, RTAs contrast with the principle of Most-favoured Nation (MFN) treatment among Members and depart from the guiding principles of non-discrimination (defined in Article I of GATT, Article II of GATS, and elsewhere). WTO Members are, however, permitted to enter into such arrangements under specific conditions which are spelt out in three sets of rules:

- Paragraphs 4 to 10 of Article XXIV of GATT provide for the formation and operation of customs unions and free-trade areas covering trade in goods ;
- The Enabling Clause (the 1979 Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries) refers to preferential trade arrangements in trade in goods between developing country Members;
- Article V of GATS governs the conclusion of RTAs in the area of trade in services, for both developed and developing countries.

Transparency Mechanism and Examination of RTAs

The Committee on Regional Trade Agreements (CRTA) examines individual RTAs to ensure their transparency and allows Members to evaluate an agreement's consistency with WTO rules. The examination is conducted on the basis of information provided by the parties to the RTA. However, consensus on WTO consistency has been reached in only one case so far and there exists a backlog of uncompleted reports in the Committee. This is due to problems arising from differences among Members on the interpretation of the WTO provisions against which RTAs are assessed; possible links between CRTA-consistency and the dispute settlement process; and institutional problems arising either from the absence of or discrepancies within WTO rules.

Against this background, negotiations for improving disciplines and procedures under the existing WTO provisions for RTAs were included in the Doha Declaration Agenda. The recent adoption of Transparency Mechanism for RTAs (provisional) is a welcome contribution in this direction. The new mechanism covers all RTAs, including those already under examination so as to expedite the process of considerations and to clear the existing backlog. The mechanism contains the following major provisions:

- Participating members of a newly signed RTA should inform the WTO at the earliest and provide all relevant unrestricted information.
- The members are also required to notify the RTA as early as possible, and specify the provision(s) of the WTO under which it is notified.
- A notified RTA will be considered for examination, and the consideration process must be concluded within a year of notification.
- To facilitate the consideration process, RTA members are required to provide data relating to Goods (Tariff concessions, MFN duty rates, Rules of Origin, import statistics); Services (Trade or BoP statistics, GDP or production statistics of the services sector, data on FDI and on movement of natural persons).
- The WTO Secretariat shall prepare a factual presentation of the RTA, primarily based on information provided by the RTA parties. This factual presentation will not be used as a basis for dispute settlement procedures.
- The CRTA will conduct the review of RTAs falling under Article XXIV of GATT & Article V of GATS. The Committee on Trade and Development will conduct the review of RTAs falling under the Enabling Clause (trade arrangements between developing countries).

Thus, the Mechanism looks to substantially improve procedures for the notification and examination of all RTAs. According to Director General Pascal Lamy, "this decision will help break the current logjam in the WTO on RTAs". Also, it could mean that a number of countries that were being left out of major RTAs now stand a fairer chance. Creating a more transparent system of regional integration could in turn provide incentives for an increasing number of countries to liberalize, which could ultimately lead to the desired multilateral liberalization.

[1]G. Pillai (SS, MoC, India), ICRIER *Lecture on Suspension of the Doha Round and its Implications* (31 July 2006)

[2]WTO (June 2006), JOB (06)/59/Rev.5, *Transparency Mechanism for Regional Trade Agreements,* Draft Decision

[3]*Lamy Welcomes WTO Agreement on Regional Trade Agreements,* WTO News Item (10 July 2006)

The World of Subsidies: Review of WTO's World Trade Report 2006

by Sudhakar Dalela[1]

Since its first edition in 2002, the WTO's World Trade Report, has been examining topical issues in trade policy in the context of salient trends in international trade. The World Trade Report 2006[2] (WTR 06) studies the area of **subsidies** – one of the most challenging issues in trade policy facing national governments today.

The first section of the WTR 06 analyses recent developments in international trade and showcases commentaries on certain current trade issues, namely, developments in trade in textile and clothing in the post-quota regime, the evolution of international royalty and fee payments, trade among least developed countries, and impact of natural disasters and acts of terrorism on international trade flows.

Developments in World Trade

The global economy expanded by 3.3 per cent in 2005, less rapidly than in 2004. The annual real rate of growth of world merchandise exports averaged 6 per cent in 2005, following the strong growth of 9.5 per cent in the preceding year. The largest net oil importing developed countries, viz. the EU, US and Japan recorded a slowdown in their import growth.

Another development in 2005 was the sharp increase in crude oil prices which pushed up energy costs world wide; however, it did not prompt increases in consumer prices as was experienced in the two previous major oil crises. Shift in relative prices over the last two years lifted the share of fuels in total merchandise trade in 2005 to a 20 year high. On the other hand, long term downward trend in the share of agricultural products continued. It fell to a historic low of less than 8 per cent in 2005. Variations in relative prices therefore had a significant impact on the nominal trade developments in 2005.

World merchandise exports rose by 13 per cent and crossed for the first time US $ 10 trillion mark. Asia's merchandise exports and imports expanded by 9.5 per cent and 7.5 per cent respectively. Commercial service exports rose by 11 per cent, to US $ 2.4 trillion in 2005. The report highlights that cross-border commercial services exports expanded less rapidly than world merchandise exports for the third year in a row. Commercial services trade in Asia, though, expanded faster than the global average. Most trade and price indicators point to a further widening of the US current account deficit in the coming years, which currently stands at over US $ 800 billion, a source of serious concern for the world community. Sluggishness of the European economy constituted the major drag on world trade and output growth. Among the developing regions, strongest growth was posted by CIS, though Asian region also demonstrated robust growth, marked by high GDP growth in China and India.

International trade in textiles and clothing continues to play an important role in the economies of many developing economies. The WTR 06 notes that the phase-out of textiles and clothing quotas is likely to accentuate underlying trends towards the replacement of domestic production in high income countries by suppliers from lower income countries, in particular from China. Available statistics indicate that the removal of quotas w.e.f 1 January 2005 has so far had limited additional impact on textiles and clothing production, employment and price levels in the major importing markets viz. the EU and the United States. Specifically, the decline of employment in the textile and clothing industry did not accelerate, and prices of textiles and clothing items in the EU and the US remained largely flat. The special restraints on China may have played their role. However, these will have to go in the near future, and it is too early to predict how markets will evolve in the medium term.

While the trade pattern is changing, anxiety among some textile and clothing exporting nations over losing out in the post-quota regime may be somewhat misplaced. India's textile and clothing exports in post-quota phase have witnessed considerable growth. In order to sustain this growth and to face likely changes in the trading conditions in the next few years, Indian industry will have to gear up for increased investment, technology up-gradation, integration and continuous improvement in competitiveness.

The picture of participation of LDCs in world merchandise trade remains uninspiring. While LDCs' participation has increased in absolute terms since 1990, with particularly sharp increase in the past three years, LDCs as a group accounted for only 0.6 per cent of world exports and 0.8 per cent of world imports in 2004. According to 2003 data, 27.6 per cent of total LDCs exports remains dutiable, with developed countries accounting for 61 per cent of this total and developing countries for the remainder 39 per cent. Among developed countries, the United States and Japan respectively allow 51 per cent and 62 per cent of their imports from LDCs to be duty free. Among developing countries, 93.3 per cent of LDCs exports to China enter duty free. On the other hand, India and Korea stand out as two countries with large imports from LDCs but with very low duty free access.

The WTR 06 observes that global receipts (and payments) of royalties and license fees are estimated to have expanded faster than world commercial services exports over the 1995-2004 period, accounting for 5-6 per cent of world commercial services trade in 2004. Royalty and license fee payments are still made mainly among developed countries and transactions are largely among affiliated firms.

On natural disasters and/or terrorist acts and their impact on international trade flows, while the immediate effects on a particular industry appear to be significant, the economy wide impact of these events tends to be localized, temporary and generally minimal. These conclusions have been derived based on analysis of impact of the tsunami in the Indian Ocean and Hurricane Katrina in the United States.

The Complex World of Subsidies and International Trade

On the central theme of subsidies, the report initially presents conceptual issues underlying the definition of subsidies. Acknowledging that there is no clear definition of 'subsidies', it discusses a range of characteristics of subsidy definition used in the existing economic literature and analyses how different subsidy definitions affect these characteristics. It broadly groups subsidies programmes into three categories: (i) direct or potential budgetary expenditure, (ii) provisions of goods and services by government at low cost or below market price, and (iii) regulatory intervention and policies. The report then goes on to examine the evolution of definition of subsidies in the GATT/WTO disciplines with particular reference to the Agreement on Subsidies and Countervailing Measures (ASCM).

The report dwells substantively on the economics of subsidies and addresses the question of how subsidies affect international trade. It explores why governments subsidize and examines policy objectives that are pursued through subsidies, namely industrial development, innovative and strategic promotion of industries, adjustments to changing economic circumstances, re-distribution of income or purchasing power, environmental protection and certain non-economic objectives, such as energy security. The report also studies Export Promotion Zones (EPZs) and evaluates whether incentives given to EPZs are useful to industrial development and the economy as a whole.

The report acknowledges the lack of comprehensive information on the use of subsidies because databases use different definitions and classification systems. This makes cross-country comparisions difficult. In its analysis, it uses three main sources of information: national and supranational subsidy reports, WTO notification under ASCM and Agreement on Agriculture (AoA) and Trade Policy Review (TPR) Reports. The report notes that developing countries on an average use less subsidies as a proportion of national income than developed countries. This should, in no way, come as a surprise. For the period 1998-2002, for a sample of 22 developed and 31 developing countries, it is found that average ratio of subsidies to GDP was 0.6 per cent for the developing as against 1.4 per cent for developed countries. For the period 1998-2002, the average subsidies as percentage of GDP for the US, EU (25), Brazil, India & China are 0.5, 1.5, 0.3, 2.6 and 1.1 respectively.

In agriculture, the report compares data from OECD agricultural database and WTO AoA notifications. Citing available information, it indicates that 21 developed countries spent nearly US $ 250 billion in 2003 on subsides. There are no surprises on agricultural subsidies; the bulk of domestic support is provided by three members – the US, EU and Japan. During the 1995-2001, the report notes that EU spent an average of US $ 96.1 billion, US $ 66.2 billion and Japan US $ 41.8 billion on domestic support. The EU is the dominant provider of export subsidies/support accounting for close to 90 per cent on average of notified outlays; though, the ratio of export subsidies to agri-production is even larger in the case of Switzerland and Norway. Other forms of export subsidies that need not be notified such as export credit, export credit guarantees or insurance programmers as well as State Trading Enterprises (STEs) and food aid can be of considerable importance. The report points out an interesting fact that according to the US Environment Working Group, the top 10 per cent of recipients in the US collect over 70 per cent of farm support (on average more than $33, 000 per annum). In EU (except Greece), on average 21 per cent of beneficiaries receive 82 per cent of direct payments. The report also looks at incidence and trends in current total Aggregate Measure of Support (AMS) and domestic support, export subsidies, export credit, food aid, and STEs.

The report highlights that international sources of data on the incidence of subsidies in the services as well as industrial sector are practically non-existent. Based on available information, mainly from TPR Reports, subsidies are found in many services sectors, such as transport, tourism, banking, telecommunication and audiovisual sectors. In industrial sector, over the period 1995-2002, a total of 54 countries notified quantitative information on industrial and/or horizontal subsides to the WTO under ASCM notification requirements. The median value of the industrial subsidies to GDP for this sample is 0.2 per cent. Given lack of completeness of WTO notifications, this data is far from perfect and should be used with circumspection.

Finally, the report provides useful analysis of the existing disciplines in WTO relating to subsidies and presents competing views on whether the disciplines are tight enough to limit trade distorting subsidies, or flexible enough to allow governments to pursue their legitimate policy objectives and development goals. The report provides an excellent snapshot of evolving jurisprudence in WTO on certain aspects of subsidies disciplines and draws attention to the ongoing negotiations to clarify and improve disciplines under ASCM, taking into account the disciplining opportunity provided under the ongoing agriculture negotiations.

Under the guidance of Deputy Director General, Alejandro Jara, the WTR 06 team led by Patrick Low, Director, Economic Research and Statistics Division in the WTO Secretariat, deserves unstinting compliments for the lucid presentation of the complex world of subsidies for the attention of policy makers, research community and civil society. Perhaps, more analytical work on the incidence and the impact of subsidies is necessary and as noted by WTO's Director General, Pascal Lamy, in the Foreword, the WTR 06 is an 'invitation to deeper reflection'. In my view, this is a useful reference on subsidy related issues for not only policy makers or those influencing government policy but also the academic community and public in general.

[1] Director in the Trade Policy Division, Department of Commerce. Views expressed are personal and do not purport to reflect the opinion or views of the Government of India.

[2] The complete text of the Report is available at http://www.wto.org/english/res_e/reser_e/world_trade_report_e.htm

ICRIER News and Events on WTO Issues

Suspension of DOHA Round and its Implications

An interactive session was organized by ICRIER on **'Suspension of DOHA Round and its Implications'** on July 31, 2006. The objective of the lecture was to brief the assembled participants about the developments at the July 23-24 G-6 meeting at Geneva that concluded inconclusively leading to the suspension of the Doha Round of negotiations, termed as "time-out to review the situation, examine available options and review positions" by WTO DG Mr Pascal Lamy.

Mr Gopla Pillai addressing the Participants

Mr. Gopal Pillai, Special Secretary and chief negotiator of Government of India led the discussion and appraised the audience about the reasons and factors that lead to the present stalemate. He was of the opinion that how soon the talks would resume will depend entirely on the outcome of the US-midterm elections scheduled to be held in November this year.

Mr Pillai in his lecture highlighted the main issues that emerged during the proceedings of the July G6 Ministerial Meet held in Geneva. He said that the failure of the twelve and half hours long meeting aimed at resolving the contentious gaps in agriculture, domestic support and NAMA lead to the suspension of the Doha Round and has brought all previous commitments to a standstill. Also, given that DDA is a single undertaking agreement, commitments made by negotiators at the Hong Kong ministerial on the other issues will not be binding now and fulfilling them will be now up to the individual countries.

At the G6 meeting, Mr Pillai noted, Mr Lamy's agenda broadly consisted of two rounds. Round 1 included discussions on Agricultural Market Access (AMA), Domestic Support and NAMA, comprising the specific issues within each of them: AMA - the ambition in terms of cuts, what would be the proportionality of cuts for developing countries, treatment sensitive and special products and special safeguard mechanism, Domestic support – the cuts and disciplines on the various boxes and NAMA - coefficients for the Swiss formula, Para 8 flexibilities, treatment of unbound lines. Round 2 was to be on sectoral issues.

Mr Pillai summarised that after the ten hours of discussion on Market access, what was on the table was a 100% cut on subsidies by 2013, domestic support cut raised to 70-75% of trade distorting support, and a 51% tariff cut agreed to by the EU. This was two to three times higher than the Uruguay Round cuts.

However, on the issue of domestic support where the US was expected to show movement, little was offered. US maintained that the October proposal was a real cut in AMS which would bind them to a total package of 23 billion dollars (as opposed to a 2005 farm support of 19.6 billion). But finally after some discussion the US stated their dissatisfaction on market access and said that therefore they would not move at all. This, according to Mr Pillai, was extreme intransigence on the part of the US, as their offer would leave their domestic support above current applied levels.

At this point, Mr Pillai said, the negotiations unravelled and NAMA did not even come up for discussion. He opined that a conclusion could have been reached since there already was resolution on export subsidies and a 75% cut on domestic support. According him there was a near 80% chance of striking a deal. But at this juncture Mr Lamy closed all discussions and the negotiations got stymied.

Evolution of India as a Negotiator in the Multilateral Trade Forum

Dr Suparna Karmakar went on a study trip to Geneva between 8 and 16 September 2006 to undertake research on the above subject and conduct interviews with major stakeholders in the negotiations and important WTO Members. This paper is a part of the forthcoming ICRIER-SRTT book on **India's Liberalization Experience - Impact of WTO**. She met up with Mr David Shark (Dy Chief of Mission) and Ms Nancy Adams at the US Mission, Mr Carlo Trojan at the EU Mission, Ambassador Ichiro Fujisaki and Mr Kenko Sone at the Japanese Mission, Ambassador Clodoaldo Hugueney at the Brazilian Mission, Ambassador U S Bhatia at the Indian Mission, Mr Faizel Ismail at the South African Mission, Dr Mateo Diego-Fernansez at the Mexican Mission, Mr A H Mamdouh at the WTO Sectt, Dr Jean-Pierre Lehmann at IMD, Lausanne, Ms Nicole Pohl and Ms Marion Panizzon at World Trade Institute, Berne, Ms Mina Mashayeki at UNCTAD, Mr Dimiter Gantechev and Dr J S Jaiya at WIPO, Dr Manas Bhattacharya at ILO, among others.

The Doha Development Round: Going Forward

ICRIER, jointly with India International Centre organized a Panel Discussion on '**The Doha Development Round: Going Forward**' on September 20, 2006. The session was chaired and moderated by Dr Rajiv Kumar, Director and CE, ICRIER, and the esteemed panellists were Mr Gopal Pillai, Secretary Commerce, Government of India, Dr Creon Butler, Deputy High Commissioner & Chief Economist, UK High Commission, Mr David Holly, Deputy High Commissioner, Australian High Commission and Mr John Fennerty, Economic Counsellor, US Embassy.

The panellists discussed the causes and consequences of the suspension of the Doha Round and highlighted the need for restarting the talks at the very soonest. **Mr Pillai** led the discussions and outlined the events leading upto the launch of the Doha Round, and pointed out that the insertion of the second D in DDA was a consequence of the 9/11 attacks, which had made all Members at that point in time alive to the need for a free and fair multilateral trade regime as a tool for fighting poverty and inequality globally.

He discussed how the talks broke on domestic support issue, and the act that the US offer of a 53% cut on domestic support was not sufficient to address the unfairness in the global agricultural trade and market access, for even with this cut US would be entitled to give 22.5 million USD to its farmers at end of the Round, which is more than the 19 million USD support that is applied today. He mentioned that it was a pity that talks did not even get to NAMA and Services liberalisation issues, sectors where developed as well as developing countries have the most of GDP and employment opportunities and potential.

However, he was not pessimistic though about the fate of DDR. He said that there was a window between Nov06-March07 window for Fast Track Authority to seal a deal. Should that fail to materialise, then talks would remain stalled for about 3 years.

Dr Creon Bulter started by mentioning that a policymaker's job is both stimulating and frustrating. He agreed with Mr Pillai that it was the 9/11 environment which had influenced structuring of Round with a 2 fold agenda: get agriculture substantially liberalised and ensure that Developing Countries also benefit; hence middle D in DDA. He agreed that success of the Round would be hinged on the delivery of the middle-D, which is not only the correct moral thing to do to help poverty alleviation but also is necessary to prevent backlash against the ongoing integration of global markets.

He warned Members to not get diverted from DDA via bilaterals/regional agreements, for really there is no substitute for multilateral liberalisation. He was of the view that the differences between countries were not much, and one can certainly build on what there is. Need to focus/balance of potential benefits of success with risks of failure! He ended by saying that UK has expectations of an ambitious and pro-development Round and is certainly not keen to give up on it.

Mr David Holly mentioned that Australia (and the CIARNS group) was not very happy with the Uruguay Round (UR) outcome either, and is looking forward to a better deal from DDR. Though the best way of liberalisation according to him is via the autonomous route as it helps the economies to unleash the natural competitive advantages, he did stress on the need for agricultural reforms as much as that in industrial goods and services; Industrial and services market access should complement with agriculture initiatives.

Mr Fennerty in his talk brought out that given the high growth in China and India, and the fact that they are large consumer driven economies and markets, not only they have a major stake in seeing where things are going in future, a global repositioning is also needed; they are future markets for industrialised countries. Traditionally DCs have been defensive; now they need to think of their offensive interests, and consider these before taking stance. Having firm bottomlines can't get the Round going; all need to move, and likeminded countries need to relook their positions and devise a way out.

He also mentioned that UR took 7 years to conclude and at the 5th year had a breakdown. This round is more complicated, and hence there is little cause for despair. We have come a long way in this round, though a lot of work still needs to be done. The round needs to start moving again – failure is not an option.

Recent Developments in WTO

by Shravani Prakash

Director General Lamy Suspends Doha Round Talks Indefinitely

WTO Director General Pascal Lamy suspended all talks under the Doha Development Agenda negotiations on 24 July 2006, after discussions among the G6 members broke down at a meeting in Geneva the previous day. He explained that "in practical terms, this means that all work in all negotiating groups should now be suspended, and the same applies to the deadlines that various groups were facing".

In a move to break the impasse and resolve the crisis, the Trade Negotiations Committee had requested the Director General to conduct intensive and wide-ranging consultations with members and revert to the Committee at the earliest. Pascal Lamy accordingly, undertook the consultative process with individual delegations and with groups. He attended the outreach session at the G8 Summit in St. Petersburg, where he asked the Heads of State and Government who were present to revise their instructions to their negotiators and give them greater flexibility. During the meeting, the Director General felt that there were some encouraging signs of enhanced flexibility.

To follow up on these signals, the meeting of the G6 (Australia, Brazil, the European Union, India, Japan and the United States) Ministers was convened at Geneva on 23 July 2006. At the conclusion of its lengthy and detailed proceedings the meeting merely served to highlight the fact that the gaps remained too wide. Lamy observed that "the main blockage was in the two agriculture legs of the triangle of issues, market access and domestic support; and the six did not even move on to the third issue of non-agricultural market access". Faced with this persistent impasse, DG Lamy believed that the only course of action he could recommend was to "suspend the negotiations across the Round as a whole to enable the serious reflection by participants and to "have time-out to review the situation, examine available options and review positions".

However, Lamy encouraged by "frustration and regret" over suspension of trade talks, calls for "political heavy lifting' to revive talks...

Speaking at the WTO Public Forum 2006, Director-General Pascal Lamy noted the "frustration and regret" of WTO members, academia and civil society over the risk of "losing a major - maybe unique - opportunity to integrate more vulnerable economies into international trade, and undermining their potential for contributing to sustainable growth and poverty alleviation". He saw this as an encouraging sign and a first step towards "getting the WTO car out of the repair garage where it finds itself now".

For a breakthrough in the Doha negotiations, Governments will have to "engage in some *political heavy lifting* in constituencies at home", the DG urged during his address to the World Bank-IMF International Monetary and Finance Committee in Singapore. He said that there was need to translate collective concerns into concrete action and that WTO members need to rethink their positions so that the existing differences in positions can be bridged. He warned that the current impasse could be costly since the conclusion of this Round is well within reach as impressive results in the negotiations had already been achieved.

In an earlier meeting with UNCTAD, the WTO DG noted that the increase in South–South trade meant developing countries' policies were increasingly affecting each other, and therefore flexibility to preserve "policy space" needed to be thought through carefully.

New Transparency Mechanism for RTAs Approved, Welcomed by DG Lamy

On 10 July 2006, the Negotiating Group on Rules' formally approved a new WTO transparency mechanism for all regional trade agreements (RTAs). This decision was welcomed by Director General Pascal Lamy who said that this "will help break the current logjam in the WTO on regional trade agreements". He said that this was an important step towards ensuring that regional trade agreements became building blocks, not stumbling blocks to world trade.

The new mechanism provides for early announcement of any RTA and notification to the WTO. Members will consider the notified RTAs on the basis of a factual presentation by the WTO Secretariat.

Cairns Group urges the resumption of frozen Doha Round trade talks by November

In a communiqué released at the 20th Anniversary Ministerial Meeting of the Cairns Group of farm exporters in September, the Ministers noted their deep disappointment at the suspension of talks in July this year, and urged WTO members to quickly re-engage in negotiations.

They warned that further delay would lead to loss in the gains secured in the negotiations, and the costs of continued delay would be borne by the farmers and rural communities. To this end, WTO Members should assess prospects for resumption and take the necessary steps to resume negotiations no later than November.

Aid for Trade independent of Doha Round: Lamy

Addressing the World Bank–IMF's Development Committee, Director General Pascal Lamy stressed the importance of "aid for trade" for helping developing and least-developed countries deal with adjustment costs, capacity constraints and supply responses for new trade agreements, but said that WTO's role would be advocacy and not the provision of assistance.

The General Council also heard a report on the work undertaken by the Task Force on Aid For Trade (created at the Hong Kong Ministerial Declaration as a way to contribute to the development dimension of the DDA). Members acknowledged the importance of Aid For Trade as a tool to help developing countries integrate more fully into the multilateral trading system and to provide them with increased trade opportunities as a way to enhance growth prospects and reduce poverty. There was clear consensus in the Task force that "Aid For Trade is important in its own right, and it should move forward expeditiously irrespective of difficulties in the Round. It was also clear that Aid For Trade could not be a regarded as a substitute for the development benefits that would flow from a successful Doha Round.

WTO to probe US cotton farm subsidies

On the basis of a claim by Brazil that Washington is still illegally subsidizing US cotton farmers, WTO launched a probe into the dismantled cotton subsidies in the US, A WTO ruling in March 2005 had condemned several key US programmes that aid US cotton farmers declaring that they broke trade rules and demanded sweeping changes. Brazil claims that the moves undertaken by the US in response to the ruling fall far short of eliminating the offending subsidies and leave untouched some of the most trade-distorting measures.

At its meeting on 28 September 2006, the Dispute Settlement Body established a compliance panel under DSU Article 21.5 at the second-time request by Brazil to review US' implementation of the DSB rulings in the "Cotton" case. At the same meeting, China blocked the first-time requests by the EC, US and Canada for panels to examine China's measures on imports of auto parts; and the US blocked Thailand's first-time request for a panel to examine US measures on shrimp from Thailand.

World Trade Report Launched

The WTO's *World Trade Report 2006* was launched in July. The report highlighted that government subsidies can be useful instruments in correcting market failures and working towards social objectives but can also distort trade and provoke strong responses from trading partners.

The Report also noted that while trade growth was lower in 2005 (6.5 %) than the preceding year (9 %), it was still above the average for the last decade. Also, LDCs have increased their share in world trade, driven largely by increases in commodity price. The trade performance of individual LDCs has been mixed—some 35 % of total LDC trade is accounted for by only two countries, while thirteen LDCs account for less than 1% of the total.

Trade Policy Reviews

Trade Policy Reviews for Congo, Bangladesh, Nicaragua and Chinese Taipei were released during the 3rd quarter of 2006. The reviews showed good economic performance and growth for all four economies, and recommended continuing reforms to sustain the growth.

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